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Order 2001-7-11

Served: July 23, 2001



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 18th day of July, 2001

Essential Air Service at

Ottumwa, Iowa

under 49 U.S.C. 41731 *et seq.*

Docket OST-00-8323-9

ORDER TO SHOW CAUSE

SUMMARY

By this order, the Department is tentatively terminating the subsidy eligibility of Ottumwa, Iowa, because the subsidy per passenger exceeds the \$200 statutory ceiling and the community is less than 210 highway miles from the medium hub airport at Kansas City, Missouri.¹

BACKGROUND

By Order 99-2-21, February 22, 1999, the Department authorized an annual subsidy rate of \$380,039 for Great Lakes Aviation, Ltd, d/b/a United Express, to provide essential air service at Ottumwa, consisting of 12 nonstop or one-stop round trips a week to Chicago O'Hare Airport with Beech 1900 aircraft.

Under current eligibility criteria the Department is prohibited from subsidizing service at communities where subsidy amounts to more than \$200 per passenger, unless they are

¹ The shortest highway distance measured from Ottumwa to the terminal at Kansas City International Airport is 206 miles.

more than 210 miles from the nearest large or medium hub.² For the most recent 12-month period, i.e., the year ended September 30, 2000, Ottumwa's subsidy exceeded \$200 per passenger. In addition, on November 15, 2000, Great Lakes filed a 90-day notice of its intent to terminate all scheduled air service at Ottumwa, effective February 14, 2001, stating that its subsidy rate was not sufficient. Great Lakes currently provides Ottumwa with two round trips each weekday and each weekend period to Chicago via Waterloo, Iowa, with 19-seat Beech 1900 aircraft, and it is the only air carrier providing scheduled service at the community.

DECISION

Because Ottumwa's subsidy per passenger exceeds the statutory cap of \$200 per passenger, we find that it is ineligible for continued subsidy support and have tentatively decided to terminate Great Lakes' subsidy rate for serving the community effective on the 21st day following the date of service of this order, at which time the carrier would be free to discontinue service.

In reaching this decision, we have reviewed subsidy, service and traffic levels at Ottumwa over the last 23 years. Since 1978, the community has received scheduled service from several carriers including Ozark Airlines (until May 15, 1979), Mississippi Valley Airlines (May 15, 1979, to April 26, 1982), American Central Airlines (April 26, 1982, to July 24, 1985), and since October 20, 1985, Great Lakes. Over the years the community has experienced three service interruptions: from December 8, 1984, through January 27, 1985; from July 25-October 20, 1985; and from May 16-June 1, 1997.

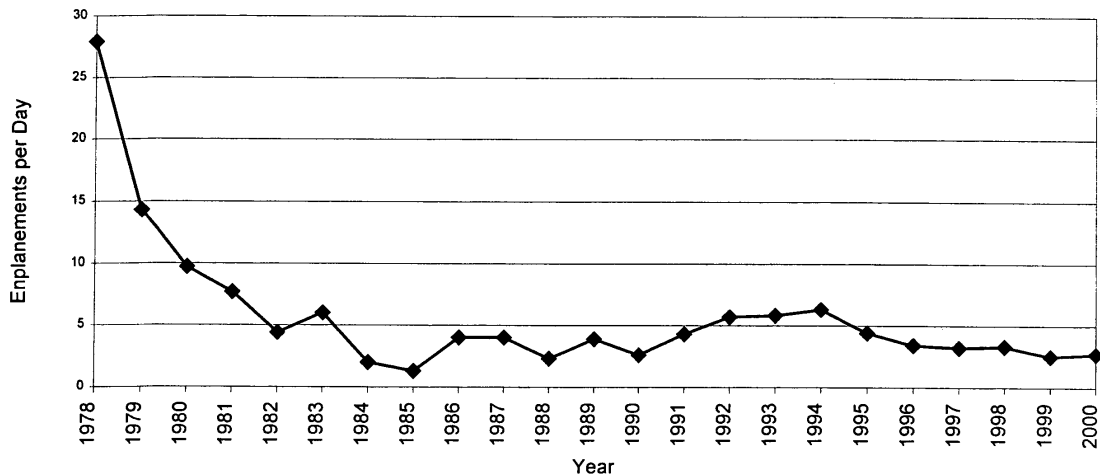
Ottumwa lies some 90-highway miles to the southeast of Des Moines, the capital of Iowa. Des Moines has multiple daily jet flights to a number of hub airports and destinations including Denver, Chicago, Detroit, Atlanta, Phoenix, Minneapolis/St. Paul, and St. Louis. As such, Ottumwa will continue to have relatively convenient access to the nation's air transportation system even without scheduled service through its local airport -- the Ottumwa Industrial Airport. Undoubtedly, the vastly superior service at Des Moines has severely limited Ottumwa's ability to generate passenger traffic through the Industrial Airport.

Passenger enplanements at Ottumwa peaked in 1978 at 8,744 passengers (approximately 17,488 total annual passengers, including inbound and outbound). As indicated in Appendix A, however, passenger enplanements have declined dramatically after 1978 and have not averaged even 10 (ten) passenger enplanements a day since 1979. Moreover, the community has averaged just 919 annual enplanements per year since

² P.L. 106-69, the Department of Transportation and Related Agencies Appropriations Act, 2000, made this a permanent eligibility standard.

1997 (fewer than 3 enplanements per day). Also, as evidenced by the following table, there has been little growth over any of those years.

Daily Passenger Enplanements at Ottumwa, Iowa



Through May 15, 2001, Great Lakes was serving Ottumwa over an Ottumwa-Burlington-Chicago routing at an annual subsidy of \$380,039. That rate was calculated based only on the costs of operating the flights over the relatively short distance from Ottumwa to Burlington because Great Lakes' Burlington-Chicago flights were not subsidized. Based on the 1,704 passengers using the Ottumwa-Chicago service during the 12 months ended September 30, 2000, that amounted to a subsidy per passenger of \$223. Moreover, Great Lakes has stated that its current rate is inadequate and that it would not be willing to continue to serve the community without a significant rate increase. As a result of Great Lakes' filing a notice to suspend service at Ottumwa, the carrier is entitled to a rate increase effective 180 days after it's filing -- May 15 in this case.³ The Department's staff has negotiated with the carrier an annual subsidy rate of \$619,635 to maintain its current two-round-trip-a-day schedules over an Ottumwa-Waterloo-Chicago routing. Based on that subsidy rate, the per-passenger subsidy would be \$364. Put another way, the community would need to generate 3,100 total annual passengers, a level Ottumwa has not generated since 1994, to reduce its subsidy per passenger amount below the statutory cap of \$200. Of course, nonstop service from Ottumwa to Chicago would require even more subsidy, further driving up the subsidy per passenger.

³ See 49 U.S.C. 41734 (d).

Since continuing to require Great Lakes to serve Ottumwa would result in a subsidy-per-passenger well in excess of the \$200 cap, we also examined the situation in the context of service proposals from prospective replacement carriers. By Order 2000-12-8, December 11, 2000, we requested proposals from any air carrier interested in providing replacement service to the community, with subsidy if necessary. On May 10, 2001, we received a single proposal from Corporate Airlines, Inc., d/b/a TW Express (Corporate) to provide replacement service at Ottumwa. Corporate would provide two nonstop round trips a day to St. Louis with 19-seat Jetstream 32 aircraft at an annual subsidy cost of \$1,015,837. Because that level of subsidy would result in a subsidy per passenger in excess of \$600, based on the most recent passenger history at the airport, we informally asked Corporate to consider submitting a less expensive proposal to serve Ottumwa to St. Louis on a one-stop basis via Kirksville, Missouri, another community the airline currently serves. After carefully considering our request, Corporate declined to submit such a proposal fearing that one-stop service would be insufficient to generate any significant Ottumwa passengers, while compromising the market the carrier has been successfully rebuilding at Kirksville.

Using the subsidy requirement from Corporate's proposal (\$1,015,837), the community would need to generate 5,100 annual passengers to reduce its subsidy per passenger below the \$200 cap, a passenger level the community has not attained in more than 20 years.

Thus, it is apparent that there is no alternative under which we could continue to secure air service for Ottumwa at a subsidy per passenger even close to the \$200 ceiling. Based on all of the above, therefore, we have tentatively decided to terminate Ottumwa's subsidy eligibility.

Consistent with program practice, we will give the community 20 days after the service date of this order to object if it finds that we have made a mistake in any of our calculations. If we receive no objections, Great Lakes is permitted to suspend service after the end of the 20-day period. If we receive properly filed objections within the 20-day period, we will require Great Lakes to continue to serve Ottumwa until we issue a final order dealing with those objections. Interested carriers, including Great Lakes, may of course provide scheduled service at Ottumwa on their own initiative. Our action here simply makes the community ineligible to receive subsidized air service.

Before Great Lakes terminates service, we expect it to contact all passengers holding reservations for travel after the suspension date, to notify them of the suspension of service and the availability of nearby air services, and to assist them in making alternate travel arrangements.

RATE MATTER

Great Lakes' most recent contract expired on March 31, 2001. As we stated earlier, the staff and the carrier have agreed to a new annual subsidy rate of \$619,635.⁴ We will establish that rate for the period from April 1, 2001, until such time as Great Lakes suspends service.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. We direct all interested persons to show cause within 20 days of the date of service of this order why we should not make final the tentative findings and conclusions set forth in paragraph 2 below.⁵ If no objections are filed, all procedural steps will be deemed waived, and this order shall become effective on the 21st day following the date of service;⁶
2. We tentatively terminate the subsidy eligibility of Ottumwa, Iowa, effective 21 days after the date of service of this order, and allow Great Lakes Aviation to terminate service on that date;
3. If we receive objections, we will require Great Lakes to continue its Ottumwa service until we issue a final order dealing with the objections. We will afford full consideration to the matters and issues raised in any timely and properly filed objection to this order;
4. The Department sets the final rate of Compensation for Great Lakes Aviation for the provision of essential air service at Ottumwa, Iowa, as described in Appendix B, from April 1, 2001, until the carrier terminates service, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling amount set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$504.59;
4. This docket will remain open until further order of the Department; and
5. We will serve a copy of this order on the Mayor and airport manager of Ottumwa, Iowa, the Governor of Iowa, the aviation staff of the Iowa Department of Transportation,

⁴ Details of the rate calculations are described in Appendix B.

⁵ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

⁶ Objections should be filed with Dockets Operations and Media Management, SVC-124, Room PI-401, 400 7th Street, S.W., Washington, D.C. 20590

United Air Lines, Inc., Great Lakes Aviation, Ltd., d/b/a United Express, and Corporate Airlines, Inc., d/b/a TW Express.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*

Appendix A

Historical Revenue Passenger Enplanements at Ottumwa, Iowa

<u>Year</u>	<u>Number</u>	<u>Average per Day</u>
1978	8,744	27.9
1979	4,485	14.3
1980	3,045	9.7
1981	2,405	7.7
1982	1,383	4.4
1983	1,883	6.0
1984	611	2.0
1985	405	1.3
1986	1,249	4.0
1987	1,251	4.0
1988	710	2.3
1989	1,229	3.9
1990	824	2.6
1991	1,342	4.3
1992	1,799	5.7
1993	1,808	5.8
1994	1,953	6.3
1995	1,358	4.4
1996	1,049	3.4
1997	1,006	3.2
1998	1,045	3.3
1999	772	2.5
2000	852	2.7

Source: Bureau of Transportation Statistics, Form 298-C, Schedule T-1. Averages refer to passenger enplanements per service day, based on 313 service days each year.

Great Lakes Aviation, Ltd.
Proposal To Provide Essential Air Service at Ottumwa, Iowa
(One-stop Service over Waterloo Option)
Summary of Service To Be Provided

Effective date: April 1, 2001.

Service: 12 nonstop or one-stop round trips per week to Chicago O'Hare.

Intermediate stops and upline service: Flights between Ottumwa and Chicago O'Hare may stop at Waterloo, Iowa.
No service to other intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$619,635
This rate assumes an annual completion factor of 98 percent.
A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

Great Lakes Aviation, Ltd.
Proposal To Provide Essential Air Service at Ottumwa, Iowa

Calculation of Compensation Requirement (One-stop Service over Waterloo Option)

Departures:	OTM-ALO	1,228	Mileages:	OTM-ALO	100
				OTM-ORD	243
Block hours		716	Available seat-miles		2,333,200
Flight hours		572	Revenue passenger-miles		601,200
Operating revenue:					
Passenger	1,800		OTM-ORD passengers @ \$108.00 average fare		\$194,400
Other	0.0062		of passenger revenue of \$194,400		<u>1,205</u>
Total operating revenue					\$195,605
Operating expense:					
Direct operating expense:					
Flying operations	\$106.66	per block hour	716		\$76,369
Flying operations	\$19.7041	per departure	1,228		24,197
Hull insurance	\$4,100	12 months	0.3393	0.25	4,173
Fuel & Oil: OTM-ALO	\$1.581	1,228	90 gallons		174,732
Maintenance (a)	\$90.20	per departure	1,228		110,766
Maintenance (b)	\$109.47	per flight hour	572		62,617
Aircraft lease	\$34,504	12 months	0.25		<u>103,512</u>
Total direct operating expense					\$556,366
Indirect operating expense:					
OTM facility lease	\$500	12	Months		\$6,000
OTM deicing charge	\$125	77	Estimated apps.		9,625
OTM local marketing					5,000
OTM station manager					22,600
OTM station agent	\$17,300	2	Agents		34,600
ALO incremental	\$15.60	614			9,578
Crew overnight	\$30.00	365			83,950
Liability insurance	\$0.00261	601,200	Revenue pass-miles		1,569
Passenger-related	\$10.2535	1,800	Total passengers		18,456
Administrative	\$0.01229	2,333,200	Available seat-miles		<u>28,675</u>
Total indirect operating expense					\$220,053
Total operating expense					<u>\$776,419</u>
Operating loss					\$580,814
Profit element	0.05	\$776,419	Total operating expense		<u>38,821</u>
Compensation requirement					<u>\$619,635</u>

**GREAT LAKES AVIATION, LTD.
12 WEEKLY ROUND TRIP FLIGHTS
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
OTTUMWA, IOWA**

Effective Date: April 1, 2001

Service: 12 nonstop or one-stop round trips each week to Chicago

Aircraft: Beech 1900D (19 passenger seats)

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: Per year - \$619,635
Per flight - \$504.59 ¹

Weekly Compensation Ceiling: \$12,110.16²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Annual compensation of \$619,635, divided by the estimated number of annual completed flights (1,228), calculated as follows: number of flights per week (24) x 52 weeks = 1,248 x's .984 (completion factor) = 1,228.

² The subsidy rate per flight (\$504.59) multiplied by the number of scheduled subsidy-eligible flights per week (24).